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TAGS: [EFIN](#) [ECON](#) [MU](#)
SUBJECT: OMANI GOVERNMENT TAKES FURTHER ACTION TO COUNTER
INFLATION

REF: A. MUSCAT 310
[B](#). MUSCAT 274

[1](#). On June 9, the Central Bank of Oman (CBO) announced that it would reduce the lending ratio of commercial banks from 87.5% to 82.5% and increase the minimum reserve requirement from 5% to 8% of total deposits, actions intended to control inflationary pressures by absorbing excess liquidity and slowing down money supply growth. The increase in the reserve requirement is the third such action taken by the CBO in less than a year.

[2](#). The recent CBO decisions are part of the government's broader effort to address Oman's rising inflation rate, which reached an 18-year record of 12.4% in April 2008. Per reftel reports, the Sultan ordered an increase in public sector salaries in February and in pension rates for government retirees in March. These actions complement other government initiatives designed to counter inflation, such as the reduction of profits at its flour mill, the capping of rental increases for housing, and measures to prevent price-gouging in food products and building materials.

[3](#). Comment. It remains unclear whether these measures will reduce inflation, as high oil prices continue to drive up government investment and high demand continues to drive up prices. In addition, the CBO decided to raise the ceiling of housing loans in a nod to rising housing prices, which may stimulate additional increases in housing costs. What does remain clear is that the government continues to use its limited toolkit to dampen inflation while retaining its dollar peg, which it continues to publicly support. End Comment.
FONTENEAU